

COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

THE APPLICATION OF BLUE GRASS)	
RURAL ELECTRIC COOPERATIVE)	
CORPORATION OF NICHOLASVILLE,)	
KENTUCKY, FOR AN ORDER)	CASE NO. 8378
AUTHORIZING AN INCREASE IN)	
ITS RETAIL RATES, APPLICABLE)	
TO ALL CONSUMERS)	

O R D E R

On November 4, 1981, Blue Grass Rural Electric Cooperative Corporation ("Blue Grass") filed with this Commission an application requesting authority to implement an interim increase in rates, effective December 1, 1981, in the amount of \$338,767. Blue Grass also requested a permanent rate increase of \$676,765 on an annual basis, an increase of 8.98 percent over normalized annual revenue. Blue Grass stated that failure to grant both increases could lead to technical violation of its mortgage agreements and a severe reduction to its equity position. Based on the determination herein, the revenues of Blue Grass will increase by \$654,438 annually.

On November 6, 1981, the Commission suspended the proposed interim rates for a period of 5 months after December 1, 1981. On January 6, 1982, the Commission scheduled a hearing for March 2, 1982, and directed Blue Grass to provide statutory

notice to its consumers of the proposed rate increase and the scheduled hearing.

In an order issued January 8, 1982, the Commission found that Blue Grass had not adequately supported its request for an interim rate increase and denied the request.

On November 6, 1981, the Consumer Protection Division of the Office of the Attorney General filed a motion to intervene in this proceeding. On February 26, 1982, the City of Berea, Kentucky, filed a similar motion to intervene. The motions were sustained, and these were the only parties of interest formally intervening herein.

The hearing was conducted as scheduled at the Commission's offices in Frankfort, Kentucky, with all parties of record in attendance. The matter is now before the Commission for final determination.

COMMENTARY

Blue Grass is a consumer-owned rural electric cooperative engaged in the distribution and sale of electric energy to approximately 9,200 member-consumers in the Kentucky counties of Fayette, Garrard, Jackson, Jessamine, Madison and Woodford. Blue Grass purchases all of its power from East Kentucky Power Cooperative, Inc.

TEST PERIOD

Blue Grass proposed and the Commission has accepted the 12-month period ending June 30, 1981, as the test period

for determining the reasonableness of the proposed rates. In utilizing the historic test period, the Commission has given full consideration to appropriate known and measurable changes.

VALUATION

Net Investment

Blue Grass proposed on its revised Exhibit J a net investment rate base of \$10,262,145. The Commission concurs with this determination with the following exceptions:

Blue Grass adjusted plant in service to reflect plant additions subsequent to the test period. In accordance with past policy the Commission will include only the test year-end balance of utility plant in service in the rate base. The Commission has further adjusted the proposed rate base to reflect only the normalized level of depreciation expense, based on test year-end plant in service, in the calculation of the accumulated provision for depreciation. Blue Grass proposed a level of working capital equal to one-eighth of pro forma operation and maintenance expenses including taxes and other income deductions. However, upon cross-examination as to the need for working capital for taxes and other income deductions Blue Grass offered no support for its inclusion of these items. The Commission will allow one-eighth of out-of-pocket pro forma operation and maintenance expenses, excluding taxes and other deductions, as the appropriate level of working capital for rate-making purposes.

The rate base has been reduced by \$80,535 to eliminate the balance in customer advances for construction at the end of the test year. The Commission is of the opinion that these advances are the equivalent of contributions of capital until their final disposition and should be treated as such for rate-making purposes.

Based on these adjustments, the Commission finds Blue Grass' net investment rate base for rate-making purposes to be as follows:

Utility Plant in Service	\$10,698,961
Construction Work in Progress	411,093
Total Utility Plant	<u>\$11,110,054</u>
Add:	
Materials and Supplies	\$ 291,566
Prepayments	63,903
Working Capital	142,767
Subtotal	<u>\$ 498,236</u>
Deduct:	
Depreciation Reserve	\$ 1,954,799
Customer Advances for Construction	80,535
Subtotal	<u>\$ 2,035,334</u>
Net Investment	<u><u>\$ 9,572,956</u></u>

Capital Structure

The Commission finds from the evidence of record that Blue Grass' capital structure at the end of the test period was \$10,688,037 and consisted of \$2,950,920 in equity and \$7,737,117 in long-term debt. In the determination of this capital structure the Commission has excluded accumulated capital credit assignments from Blue Grass' wholesale power supplier in the amount of \$242,349.

The Commission has given due consideration to these and other elements of value in determining the reasonableness of the proposed rates.

REVENUES AND EXPENSES

On its Exhibit B Blue Grass proposed several adjustments to revenues and expenses to reflect more current and anticipated operating conditions. These adjustments were revised in the testimony and exhibits of Blue Grass' witness, Mr. Bradley. The Commission finds that the proposed adjustments are generally proper and acceptable for rate-making purposes with the following modifications:

Depreciation

Blue Grass proposed an adjustment of \$47,983 to depreciation expense to reflect the normalized level of expense based on plant in service at December 31, 1981. The Commission will allow \$30,397 of the proposed adjustment to include depreciation on plant in service at the end of the test year. The Commission is of the opinion that plant additions subsequent to the test period should produce additional revenues as well as expenses; however, Blue Grass' proposed adjustment would reflect only an increase in one expense item. Therefore, the Commission finds that in the absence of adjustments to reflect other expenses and revenues associated with plant additions made subsequent to the test year, the additional depreciation expense should not be considered for rate-making purposes.

Capital Credits

Blue Grass proposed to adjust other income by \$11,225 to exclude capital credit assignments from associated organizations. Blue Grass offered no evidence that the level of credits realized during the test year would not be realized prospectively. The Commission is of the opinion that these credits should be recognized as income in the year they are assigned, and therefore, the adjustment has not been accepted for rate-making purposes.

Advertising

The Commission has reduced Blue Grass' annual expenses by \$6,794 to exclude test year expenditures for promotional and institutional advertising in accordance with 807 KAR 5:016E. The Commission is of the opinion that these expenditures provide little or no benefit to Blue Grass' consumers and should not be allowed for rate-making purposes.

Fuel Clause

The Commission adjusted Blue Grass' base rates in Case No. 8062 to roll into the base rate the fuel cost of its wholesale power supplier. In addition to rolling in the current fuel costs, the Commission revised the method of calculating the monthly fuel adjustment charge to allow for over- and under-recoveries of the preceding month's fuel charge or credit. This revision will allow total recovery (or refund) of fuel adjustment charges or credits through the fuel adjustment clause. Therefore, the Commission has decreased revenue by

\$196,498 and decreased purchased power expense by \$192,396 to exclude the fuel revenue and cost incurred during the test year.

The effect on net income of the revised pro forma adjustments is as follows:

	<u>Actual Test Period</u>	<u>Pro Forma Adjustments</u>	<u>Adjusted Test Period</u>
Operating Revenues	\$ 6,910,883	\$ 772,053	\$ 7,682,936
Operating Expenses	6,404,808	895,094	7,299,902
Operating Income	<u>\$ 506,075</u>	<u>\$ (123,041)</u>	<u>\$ 383,034</u>
Interest on Long-Term Debt	344,806	138,494	483,300
Other Income and (Deductions) - Net	<u>47,573</u>	<u>2,380</u>	<u>49,953</u>
Net Income	<u>\$ 208,842</u>	<u>\$ (259,155)</u>	<u>\$ (50,313)</u>

RATE OF RETURN

The actual rate of return on Blue Grass' net investment rate base established herein for the test year was 5.29 percent. After taking into consideration the accepted pro forma adjustments, Blue Grass would realize a rate of return of 4 percent. The Commission is of the opinion that the adjusted rate of return is inadequate and a more reasonable rate of return would be 10.84 percent. In order to achieve this rate of return Blue Grass should be allowed to increase its annual revenue by \$654,438, which would result in a TIER of 2.25. This additional revenue will provide net income of \$604,125, which should be sufficient to meet the requirements in Blue Grass' mortgages securing its long-term debt.

Rate Design and Revenue Allocation

Blue Grass proposed the following rate design changes: to delete the high voltage discount on rate schedules LP-1 and LP-2, to reduce the number of declining blocks on rate schedules GS-1 and C and to add customer charges to each of these rate schedules. In support of these changes, Blue Grass' general manager, Mr. Taylor, testified that Blue Grass had no usage under the high voltage discount and that the other changes were intended to reduce differences between wholesale and retail rate structures, avoid promotional rates, and move away from a highly criticized declining block rate structure. Blue Grass proposed to allocate the revenue increase in approximately equal percentages to all charges except for a larger increase to the demand charge and a slightly smaller increase for low usage under the GS-1 rate schedule. Mr. Taylor testified that the increase to the demand charge was intended to reduce the discrepancy between the wholesale and retail demand charges. The Commission is of the opinion that the proposed changes are reasonable and should be accepted.

SUMMARY

The Commission, having considered the evidence of record and being advised, is of the opinion and finds that:

1. The rates in Appendix A are the fair, just and reasonable rates for Blue Grass and will produce gross annual

revenue sufficient to pay its operating expenses, service its debt, and provide a reasonable surplus for equity growth.

2. The rates proposed by Blue Grass would produce revenue in excess of that found reasonable herein and should be denied upon application of KRS 278.030.

IT IS THEREFORE ORDERED that the rates in Appendix A are approved for service rendered by Blue Grass on and after the date of this order.

IT IS FURTHER ORDERED that the rates proposed by Blue Grass be and they hereby are denied.

IT IS FURTHER ORDERED that within 30 days from the date of this order Blue Grass shall file with the Commission its revised tariff sheets setting out the rates approved herein.

Done at Frankfort, Kentucky, this 27th day of April, 1982.

PUBLIC SERVICE COMMISSION

Marlin M. Vohy
Chairman

Katharine Randall
Vice Chairman

Don Carrigan
Commissioner

ATTEST:

Secretary

APPENDIX A

APPENDIX TO AN ORDER OF THE PUBLIC SERVICE COMMISSION IN CASE NO. 8378 DATED APRIL 27, 1982

The following rates and charges are prescribed for the customers in the area served by Blue Grass Rural Electric Cooperative Corporation. All other rates and charges not specifically mentioned herein shall remain the same as those in effect under the authority of this Commission prior to the date of this Order.

GS - 1 (GENERAL SERVICE)

Rate:

Customer Charge	No Usage	\$5.30	Per Meter, Per Month
First 600 KWH Per Month		.05735	Per KWH
All Over 600 KWH Per Month		.04698	Per KWH

Minimum Charges:

The minimum monthly charge under the above rate shall be \$5.30. Payment of the minimum charge shall entitle the consumer in all cases to the use of the number of kilowatt-hours corresponding to the minimum charge in accordance with the foregoing rate.

C 1 - COMMERCIAL AND INDUSTRIAL LIGHTING & POWER SERVICE

Rate:

Demand Charge

First 10 KW of Billing Demand	No Charge
Over 10 KW of Billing Demand Per KW	\$4.65

Energy Charge (Under 50 KW)

First 3,000 KWH	\$.06037
All Over 3,000 KWH	\$.04576

<u>Customer Charge</u>	\$6.95
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Minimum Charge:

The minimum monthly charge under the above rate shall be \$6.95 where 5 kva or less of transformer capacity is required. For consumers requiring more than 5 kva of transformer capacity, the minimum monthly charge shall be one of the following charges as determined for the consumer in question:

- (a) The minimum monthly charge as specified in the contract for service.
- (b) A charge of \$0.75 per KVA per month of contract capacity.
- (c) A charge of \$25.00.

LP - #1 - LARGE POWER

Rate:

Maximum Demand Charge

\$4.65 Per Month Per KW of Billing Demand

Energy Charge (51-500 KW)

First	10,000 KWH	\$.04643 Per KWH
Next	15,000 KWH	.03973 Per KWH
Next	50,000 KWH	.03413 Per KWH
Next	75,000 KWH	.03183 Per KWH
All Over	150,000 KWH	.03013 Per KWH

Customer Charge

\$ 24.00 Per Month

Special Provisions:

- 3. Primary Service (delete)

LP - #2 LARGE POWER

Rate:

Maximum Demand Charge

\$4.65 per month per KW of Billing Demand.

Energy Charge (Over 500 KW)

First	3,500 KWH	\$.04620 Per KWH
Next	6,500 KWH	.03793 Per KWH
Next	140,000 KWH	.03280 Per KWH
Next	200,000 KWH	.03125 Per KWH

Next	400,000 KWH	.03033 Per KWH
Next	550,000 KWH	.02941 Per KWH
All Over	1,300,000 KWH	.02849 Per KWH

Customer Charge \$24.00 Per Month

Special Provisions:

3. Primary Service (delete)

SECURITY LIGHTS

Rate Per Light Per Month:

175 Watt \$4.72 - Per Light
400 Watt \$7.15 - Per Light

STREET LIGHTING

Rate Per Light Per Month:

4,000 Lumen Incandescent (Ornamental)	\$4.76 Per Lamp
6,000 Lumen Incandescent (Ornamental)	6.17 Per Lamp
175 Watt Mercury Vapor (Standard)	4.72 Per Lamp
400 Watt Mercury Vapor (Standard)	7.15 Per Lamp
150 Watt High Pressure Sodium (Standard)	4.72 Per Lamp